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GOVERNOR

STATE OF MICHIGAN  
OFFICE OF FINANCIAL AND INSURANCE SERVICES  
DEPARTMENT OF LABOR & ECONOMIC GROWTH  
KEITH W. COOLEY, DIRECTOR

**BILL ANALYSIS**

**BILL NUMBER:** House Bill 4674 (as introduced)  
**TOPIC:** Auto and Home Insurance Premium Increase  
**SPONSOR:** Rep. Tory Rocca  
**CO-SPONSORS:** Rep. Wenke, Accavitti, Wojno, Gaffney, Espinoza, Meisner, Polidori, Clemente, and Warren  
**COMMITTEE:** Committee on Insurance  
**Analysis Done:** May 9, 2007

**POSITION**

The Office of Financial and Insurance Services supports this legislation.

**PROBLEM/BACKGROUND**

When a consumer needs to purchase an automobile or home insurance policy, they solicit quotes for coverage from producers (agents) representing the various insurance carriers. Once a producer provides the quotes, the consumer selects the company whose policy best meets their pricing and coverage needs.

After the consumer submits the application, pays the premium, and receives the in effect policy, some insurers may re-price the policy mid-way or toward the end of the contract period. They then require the insured to pay additional amounts in order to maintain coverage for the contract period.

**DESCRIPTION OF BILL**

House bill 4674 amends the Essential Insurance Act (Chapter 21) of the Michigan Insurance Code. Once a premium for an automobile or home insurance policy has been quoted or billed and has been paid, it prohibits an automobile or home insurer from increasing the premium for the policy during the term of the policy unless the initial premium was based on materially incorrect information provided by the applicant or insured at the time the contract was formed.

## **SUMMARY OF ARGUMENTS**

### **Pro**

Consumers enter into a contract with an insurer for a certain level of coverage at a specified price. Absent material misrepresentations by the consumer, insurers should be required to provide a consumer the benefit of the bargain they negotiated.

The Code requires insurance producers to provide consumers with the lowest available premium quote. Generally speaking, insurers are bound to honor quotes made by their appointed producers. To the extent that insurers are permitted to modify premiums after the initial quote is made, this undermines current law.

Allowing an insurer to alter the premium after the contract is issued would negatively impact the ability of a consumer to comparison shop for insurance.

### **Con**

Some insurers or producers may believe the language as introduced needs refinement as it relates to initial quotes.

This language would only protect those consumers who purchased individual insurance. To cover policies written on a group basis, Chapters 24 and 26 would have to be similarly amended.

## **FISCAL/ECONOMIC IMPACT**

OFIS has identified the following revenue or budgetary implications in the bill as follows:

(a) To the Office of Financial and Insurance Services: None

Budgetary:

Revenue:

Comments:

(b) To the Department of Labor and Economic Growth: None

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None

Budgetary:

Revenue:

Comments:

(d) To Local Governments within this State: None

Comments:

**OTHER STATE DEPARTMENTS**

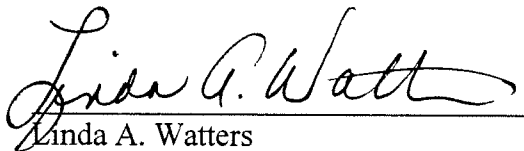
None

**ANY OTHER PERTINENT INFORMATION**

None

**ADMINISTRATIVE RULES IMPACT**

This proposed legislation would amend the Michigan Insurance Code. The OFIS has general rulemaking authority under the Insurance Code of 1956, 1956 PA 218.



Linda A. Watters  
Commissioner

5-9-07

Date